

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-06 CEA-01 PA-02 PRS-01 /111 W
-----116180 111200Z /23

R 111045Z JAN 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5543
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 0146

PASS TREAS AND FRB

USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF JAN 1-7, 1978

1. SUMMARY: EVENTS WERE DOMINATED BY ABRUPT DOLLAR
EXCHANGE RATE MOVEMENTS IN EXTREMELY NERVOUS, OFTEN
CHAOTIC MARKET. STATEMENT OF US COMMITMENT TO SUPPORT
DOLLAR RATE WAS RECEIVED WITH SATISFACTION, BUT FOREX
AND GOLD MARKET TRENDS SHOWED CONTINUED SKEPTICISM
ABOUT STRENGTH AND DURATION OF US SUPPORT. GOLD
PRICE EXPECTED TO CONTINUE RISING. SWISS NATL BANK
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PRESIDENT LEUTWILER SAID HE FELT "FOREIGN EXCHANGE
MARKET WAS RUNNING AMOK". LARGEST BANKS DECREASED
FIXED TERM DEPOSIT INTEREST RATES. SNB END 1977
BALANCE SHEET TOTAL WAS ONE PERCENT BELOW END 1976.
SEPARATE CABLE REPORTS SWISS BANKERS ASSN RECOMMENDATIONS
ON BANK AUDITS AND CLARIFICATIONS OF JUL 1977 SBA
AGREEMENT WITH SNB ON IDENTIFICATION OF DEPOSITORS.

END SUMMARY.

2. FOREIGN EXCHANGE: MARKET WAS HECTIC. DOLLAR RATE FELL TO SF 1.8950 DURING JAN 4 BEFORE CLOSING SF 1.92. DEALERS SAID RECOVERY WAS TECHNICAL ADJUSTMENT ANE EXPECTED FURTHER DECLINE. ALTHOUGH DOLLAR ROSE TO SF 2.05 JAN 5 FOLLOWING US TREAS AND FED STATEMENT THAT US WOULD ACTIVELY SUPPORT DOLLAR EXCHANGE RATE, DEALERS GENERALLY BELIEVED DOLLAR RATE WOULD CONTINUE DECLINE AS RATE FELL AGAIN FRIDAY. NO NEW REASON WAS OFFERED FOR DOLLAR DECLINE, EXCEPT NOV DROP IN INDEX OF LEADING US ECONOMIC INDICATORS. DEALERS SAID SF APPRECIATION AGAINST DM REFLECTED COMPARATIVE ECONOMIC SITUATIONS, PARTICULARLY MONETARY POLICY, INDUSTRIAL COSTS AND INTEREST RATES. HOWEVER, RECENT CAPITAL INFLOWS INTO SWITZERLAND REPORTEDLY HAVE BEEN REDIRECTED TO WEST GERMANY, AND DM IS EXPECTED APPRECIATE AGAINST SF. RATES FOLLOWS:

ITEM - 1/3 (OEPN) - 1/6 (CLOSE)
SPOT DOLLAR - 1.9925 - 1.9950
FORWARD DISCOUNTS (PERCENT PER ANNUM)
ONE MONTH - 6.73 - 6.60
TWO MONTHS - 6.11 - 5.91
SIX MONTHS - 5.97 - 5.65
TWELVE MONTHS - 5.63 - 5.20
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SF/DM - 94.67 - 93.39
GOLD - 1.67.00 - 168.75

3. GOLD: DEALERS SAID ABRUPT GOLD PRICE RISE FROM PREVIOUS WEEK REFLECTED DOLLAR EXCHANGE RATE DEVELOPMENTS; NO ECONOMIC BASIS SEEN FOR SUBSTANTIAL PRICE INCREASE. HOWEVER, PRICE RISE SATISFIED THOSE WHO PAID HIGHER PRICE AT JAN IMF SALES. MARKET CIRCLES HOPE FOR CALMING ON FOREX FRONT IN VIEW OF GOLD PRICE VOLATILITY, BUT STILL EXPECT LONG TERM UPWARD PRICE TREND ON BASIS PRESENT OFFER AND DEMAND CONDITONS.

4. SNB VIEWS: SNB SPOKESMAN EXPRESSED SATISFACTION US COMMITTED TO SUPPORT DOLLAR RATE AND DENIED RUMORS OF POSSIBLE NEW MEASURES TO STEM FRANC APPRECATON,

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PASS TREAS AND FRB

USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

NOTABLY BAN ON NON-RESIDENT PURCHASES OF SWISS
STOCK, DUAL EXCHANGE RATE AND CASH DEPOSITS FOR
FOREX PURCHASES. SNB PRESIDENT LEUTWILER TOLD PRESS
AT MIDWEEK HE THOUGH NAMING NEW FED CHAIRMAN WOULD
BRING DOLLAR RATE UP. IN FACT DOLLAR FELL FURTHER
THA LEUTWILER THOUGHT POSSIBLE; HE FELT
"FOREX MARKET WAS RUNNING AMOK". SNB IS WORKING
BEHIND SCENES TO STEM SF APPRECIATION BUT SOLUTION
RESTS WITH WASHINGTON ACTION. SNB IS INTERVENING
MODERATELY, CONTRARY TO RUMORS OF INACTION, BUT
INTERVENTIONS EXCEED MONEY SUPPLY GROWTH RATE TARGET
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CONSIDERATIONS. EXCHANGE RATE POLICY HAS TAKEN
"MOMENTARY" PRIORITY OVER MONETARY AND INFLATION
STABILIZATION POLICIES. HOWEVER, THERE IS NO
INFLATION DANGER FROM GREATER LIQUIDITY; BANKS WOULD
NOT EXPAND CREDIT UNREASONABLY. LIQUIDITY REDUCTION

IS NOT OPPORTUNE WHEN FRANC APPRECIATING; ANY SUCH MEASURES WOULD BE GRADUAL TO SOFTEN IMPACT. FRANC APPRECIATION AGAINST DM AND YEN IS UNEXPLAINABLE; BUT EXPERIENCE SHOWS DM USUALLY FIRMS AGAINST FRANC AFTER SUCH TREND.

5. PRESS COMMENT: REPORTING IN AGEFI ON DOLLAR RATE MOVEMENTS WELCOMED US STATEMENT OF COMMITMENT TO SUPPORT DOLLAR RATE. HOWEVER, NEW FED CHAIRMAN PROBABLY MEANT US WOULD NOT MASSIVELY SUPPORT DOLLAR AND ISSUE WOULD BE TAKEN UP AMONG CENTRAL BANKERS MEETING IN BASEL. AGEFI EDITORIAL JAN 6 STRESSED ESSENTIAL QUESTION OF STRENGTH AND DURATION OF US COMMITMENT, PARTICULARLY IN VIEW SIZE OF US EXCHANGE STABILIZATION FUND AND PLANNED SWAPS WITH FOREIGN CENTRAL BANKS COMPARED TO VOLUME OF EXCHANGE TRANSACTIONS ON WORLD MARKETS. AGEFI ALSO NOTED US STRUCTURAL ECONOMIC PROBLEMS AND US RELUCTANCE RETURN TO PREDETERMINED EXCHANGE RATES. AGEFI COMMENTED JAN 5 THAT DESPITE BURDEN OF APPRECIATED FRANC ON SWISS EXPORT INDUSTRY, 1977 SWISS EXPORTS REACHED RECORD LEVEL, AND HISTORY HAS SHOWN THAT COUNTRIES WHICH DEVALUED THEIR CURRENCIES HAVE NOT MAINTAINED INITIAL EXPORT ADVANTAGE BECAUSE OF INCREASED IMPORT COSTS.

6. CAPITAL AND MONEY MARKETS: SNB HELPED MEET YEAR END REQUIREMENTS WITHOUT DIFFICULTY WITH ADDITIONAL LIQUIDITY OF SF 8 BILLION IN SWAPS AND CREDITS.
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STOCK PRICES MOVED INVERSELY TO DOLLAR EXCHANGE RATE; SKA INDEX SLIPPED TO 245.3 FRIDAY FROM MIDWEEK HIGH OF 247.4. AVERAGE YIELD CONFEDERATION BONDS WAS 3.80. LARGEST BANKS LOWERED FIXED TERM DEPOSIT INTEREST RATES 0.5 PERCENT ACROSS THE BOARD; NEW RATES: 3 TO 5 MONTHS BEAR ONE PERCENT; 6 TO 11 MONTHS, 1.25 PERCENT; AND ONE YEAR 1.75 PERCENT. FOREIGN AND DOMESTIC LOAN ISSUES MET GOOD RECEPTION FROM INVESTORS DURING FIRST WEEK 1978.

7. SNB STATEMENT: END DEC 1977 SNB BALANCE SHEET TOTAL WAS 16.7 PERCENT ABOVE END NOV BUT ONE PERCENT BELOW END 1976. FOREX HOLDINGS ROSE 38.9 PERCENT IN DEC 1977 BUT WERE SLIGHTLY BELOW END 1976. NOTES IN CIRCULATION WERE UP 6.2 PERCENT IN DEC AND 3.4 PERCENT COMPARED END 1976. GOLD HOLDINGS ROSE SF 4,734.35 IN LAST WEEK 1977.

ITEM - CHANGE FROM NOV 30 (IN MILLIONS OF SF)
ASSETS

GOLD - 11,904 - NIL - NIL
FOREX - 20,514 - UP - 5,741
ROOSA BONDS - 3,949 - DOWN - 140
DISCOUNTED PAPER - 1,252 - DOWN - 92
LOMBARD LOANS - 197 - DOWN - 68
OTHER - 1,080 -UP - 127

LIABILITIES

NOTES IN CIRCULATION - 20,397 - UP - 1,199
GIRO ACCTS - 13,623 - UP - 6,415
STERILIZATION ORDERS - 722 - DOWN - 972
OTHER - 4,154 - DOWN - 1,074
BALANCE SHEET TOTAL - 38,896 - UP - 5,568.
WARNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FOREIGN MARKETS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 11 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BERN00146
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780016-0298
Format: TEL
From: BERN USMTN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780178/aaaacnio.tel
Line Count: 237
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9996eae4-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22 feb 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3795903
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF JAN 1-7, 1978
TAGS: EFIN, SZ
To: STATE
Type: TE
vdkgvwkey: odbs://SAS/SAS.dbo.SAS_Docs/9996eae4-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014